

**Executive Limitation Monitoring Report
EL-3 Financial Condition and Activities
Lake of the Woods District Hospital**

For the period ending September 30, 2017

Board policy is indicated in bold typeface throughout.

I hereby present my monitoring report on the Executive Limitations Policy "**Financial Condition and Activities**" according to the schedule set out. I certify that the information contained in this report is true, and represents achievement of the policy unless specifically stated otherwise.

Signed  CEO Date: October 30, 2017

With respect to the actual, ongoing financial condition and activities, the CEO shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities established in Ends policies.

CEO Interpretation (no changes from previous)

I interpret "development of fiscal jeopardy" to mean at risk of being unable to meet financial obligations
I interpret "material deviation of actual expenditures" to mean a significant amount of expenditure directed toward items or services which do not contribute toward the mission of the hospital to provide optimal health care for a justifiable use of public resources.

Compliance will be achieved when:

- 1) operating revenues are in excess of operating expenses or if expenses exceed revenues that the extent of the shortfall does not exceed the authorized overdraft limit of \$1.5 million and
- 2) there is a positive working capital position and
- 3) a review of underlying budgeting philosophy and of actual hospital expenditures confirms that their nature and intent is to direct resources toward the achievement of the priorities set out in the Ends policies.

Evidence: **Compliant**

As per the Statement of Operations the Hospital reported a deficit of \$74,554 for the period ending September 30, 2017. However MOHLTC targets as specified in the H-SAA are based on achievement of at least a 0% operating margin before adjustments for building amortization, and therefore the reported margin for MOHLTC purposes was a surplus of \$107,516 (.5%) and is therefore compliant with the Ministry target.

An examination of all of the monthly bank statements from April 2017 to September 2017 (the period since the last report) indicated there have been no occurrences of overdrafts during this period. As can be confirmed by the monthly financial statements, although working capital has been declining, the hospital has maintained a positive working capital position throughout the period.

Through internal communication and the internal strategic planning process, managers are aware of the Board's Ends policies and are expected to direct the activities of their departments toward achieving those ends. This philosophy is incorporated into the establishment of the strategic plan, the annual operating budgets and departmental goals and objectives.

Further, without limiting the scope of the above statement by the following list, the CEO shall not

1. **Expend more funds than are projected to be received in the fiscal period to date unless the debt guideline (below) is met**

CEO Interpretation (no change from previous)

I interpret “funds” to mean all sources of funding, including Ministry of Health and Long Term Care (MOHLTC), patient revenue from other payers, differential and co-payment revenue as well as other revenue and recoveries.

I interpret “projected to be received” to mean those funds to be received from all sources within the current fiscal period.

Compliance will be achieved when the statement of operations indicates a balanced or surplus position after taking into account accruals for revenues projected to be received and expenditures paid or due to be paid, and before adjustments for amortization of buildings, or if a deficit is reported, that there is sufficient working capital and/or room within the \$1.5 million debt guideline to cover the deficit and that the amount borrowed could be repaid within 90 days.

Evidence **Compliant**

As indicated above, the Hospital is in a surplus position.

1.1 Borrow more than \$1.5 million on a short term basis (not to exceed 90 days) to cover operating expenses; or indebt the organization in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 90 days.

CEO Interpretation (no change from previous)

I interpret “operating expenses” to mean all expenses, other than capital, as consistent with generally accepted accounting principles (GAAP).

I interpret “otherwise unencumbered revenues” to mean those that are not already designated by the Board or the funding source for another purpose.

I interpret “certain” to mean that “guaranteed”.

Compliance will be achieved when the banking records indicate no more outstanding debt than can be definitely be repaid through unencumbered receipts within a 90 day period, and in the case where such short term debt does exist, that the statement of financial position reflects that it is no greater than \$1,500,000, which is the amount of the Hospital's approved operating line of credit.

Evidence **Compliant**

No funds have been borrowed between March 31, 2017 (the date of the last monitoring report) and September 30, 2017 as may be verified by the monthly financial statements and banking records.

2. Use any restricted reserve funds.

CEO Interpretation (no change from previous)

I interpret “restricted reserve funds” to mean internal or external appropriations of earnings set aside for a specific purpose requiring Board approval, or any other funds internally restricted specifically for capital or other reasons.

Compliance will be achieved when a review of the banking records indicate that all reserve funds have remained intact, unless there has been approval for their use by a formal motion of the Board of Directors, or for the purchase of the specific capital expenditure for which they were received.

Evidence **Compliant**

A review of the accounting records indicates the \$1,851,644 reserve funds reported on the Statement of Financial Position are made up of an original \$250,000 reserve for unspecified capital purposes, as well as advances from the LWDH Foundation or other funding sources for specifically approved capital equipment and capital projects. The \$250,000 unspecified reserve remains intact at September 30, 2017. The reason for appropriating the remaining capital reserves is to ensure that they are segregated from operating funds. They are drawn down as specific equipment and building expenditures are made for the items that the funds are intended. A detailed review of the general ledger account and the banking records indicates that the funds continue to be held in short term investments.

3. Allow payroll or debts to be paid in an untimely manner.

CEO Interpretation (no change from previous)

I interpret “payroll” to mean the biweekly payroll of hospital employees.

I interpret “debts” to mean all other expenses paid by the hospital.

I interpret “untimely manner” to mean, for debts as beyond the terms stated in the invoice, or for payroll as beyond the terms of the collective agreements, which is biweekly, every second Friday.

Compliance will be achieved when the payroll and banking records indicate that 100% of payroll transfers have been completed, biweekly and on their due date, and when a sample review of cheque runs and a review of interest expenses paid, indicates that invoices are consistently being paid on time, and/or no penalties or interest are assessed for late payment.

Evidence **Compliant**

A review of all payroll transfers confirms that payroll has been issued on time for every pay period between March 31, 2017 (date of last report) and September 30, 2017.

A random sample of 15 cheque batches (366 invoices- approx 6% of invoices with a dollar value of \$437,791) paid between April 1, 2017 and September 30, 2017 was tested to determine whether payment was issued by the due date indicated on the invoice. In this sample there were 6 invoices(value \$2,665) that were paid after the stated due date. This is a higher percentage than in previous tests however none of the late payments in question resulted in interest charges. The majority of the deficiencies were related to one department and it was determined that late payment was due to the manager being absent and not available to sign off approval for payment. Managers will be reminded of the importance of paying invoices by their due date, and instructed to designate an alternate approver for invoice payment if they are going to be absent for extended periods of time. Generally it appears that invoices are being paid before their due dates, and the incidence of being charged late payment interest is very rare.

4. Allow government ordered payments or filings to be overdue or inaccurately filed.

CEO Interpretation (no change from previous)

I interpret “government ordered payments” to mean remittances for Income Tax, Canada Pension Plan, Employment Insurance, Employee Health Tax, WSIB and HST.

I interpret “government ordered filings” to mean quarterly and annual filings of financial and statistical data with the Ministry of Health and Long Term Care (MOHLTC) as well as the electronic quarterly submissions of the MIS trial balance and Web Enabled Reporting System reports.

I interpret “overdue” to mean the filing of late data that leads to the corporation being fined for being late.

I interpret “inaccurately filed” to mean the filing of data known or not known to be in error

Compliance will be achieved when the remittance advices for all government filings indicate that they have been filed by their due dates, and when an analysis of the financial records indicate that no interest or penalties have been incurred as a result of late filing.

Evidence **Compliant**

A review of 100% of the monthly remittance forms for the period April 1, 2017 to September 30, 2017 for Receiver General, WSIB , HST and Employer Health Tax indicated that all monthly government ordered payments and filings have been filed on time. There has been no notification or correspondence received from any of the government agencies that would suggest that any payments or filings were inaccurately filed.

5. Make a purchase or commitment for a capital asset costing in excess of \$50,000 if the final cost exceeds the amount originally planned by 10%.

CEO Interpretation (no change from previous)

I interpret “purchase or commitment for a capital asset” to mean any purchase order or sales contract for capital equipment or any major renovation

I interpret “originally planned” to mean those capital items that are part of the budget assessed as compliant with policy by the Board of Trustees at the beginning of our fiscal period.

Compliance will be achieved when a review of the purchase orders and invoices for all capital purchases over \$50,000 indicates that the total price paid for each item is no greater than 10% higher than the amount which was included in the associated approved capital budget item.

Evidence **Compliant**

A review was conducted on October 26, 2017 of 100% of the capital purchase orders issued during the period April 1, 2017 to September 30, 2017. There were four capital purchase orders issued during this time period that were for values of over \$50,000. All of the purchases were within 10% of the budgeted amounts.

6. Acquire, encumber or dispose of land or buildings without prior approval by the Board of Directors and the Ministry of Health & Long Term Care.

CEO Interpretation (no change from previous)

I interpret “acquire land or buildings” to mean the legal transfer of title of land or buildings to the corporation.

I interpret “encumber land or buildings” to mean enter into an agreement that will eventually lead to the legal transfer of land or buildings to the corporation or mortgaging of an existing building.

I interpret “dispose land or buildings” to mean sell or intent to sell land or buildings so that legal title is transferred from the corporation.

Compliance will be achieved when a review of the financial records and capital asset ledger indicates that there have been no additions, disposals or legal encumbrances of land or buildings without prior authorization through a formal motion of the Board of Directors.

Evidence **Compliant**

There has been no acquisition, encumbrance or disposition of land or buildings during the reporting period. This can be verified by a review of applicable general ledger accounts, board minutes and/or legal documents.

7. Fail to aggressively pursue receivables after a reasonable grace period.

CEO Interpretation (no change from previous)

I interpret “aggressively pursue” to mean that every effort is made to collect the account before being written off

I interpret “reasonable grace period” to mean a length of time no greater than 90 days for receivables from parties other than governments and six months for receivables from governments, which is a fairly standard period of time for other organizations and businesses.

Compliance will be achieved when a review of the accounts receivable ledger has been conducted to identify all accounts outstanding over 90 days, and where it can be verified that adequate monthly procedures are in place and are actively utilized to pursue any accounts for which probability of collection may be in question.

Evidence **Compliant**

A review of the aged accounts receivable trial balance for non-government related accounts receivable indicates that 20% (\$262,300) have been outstanding for longer than 90 days. \$136,891 of this is from LifeLabs, which is paid to the hospital twice annually, so removing this from the equation reduces the amounts outstanding for longer than 90 days to 9.5%. Of the larger remaining amounts, most have been billed to other provinces so have a high likelihood of being paid. The majority of the rest is made up of small amounts under \$400 and a large portion of accounts over 90 days are made up of \$45 and \$240 ambulance accounts. The aged listing has been reviewed with our Accounts Receivable Clerk and the Manager of Finance, who agree that the allowance for doubtful accounts is considered sufficient to cover amounts which may not be collectible. A previous internal review of the process for collecting overdue accounts receivable for non-government related accounts receivables indicated that the A/R trial balance listing is reviewed monthly to identify any problem accounts and that these are followed up in a timely

manner via telephone by the accounts receivable clerk. Customers are issued statements for four months after the initial invoice and at that point in time if the amount remains unpaid it is considered to be sent for collection. The process has been outlined in previous (EL-3) monitoring reports.

Overall bad debt expense for the period as reported in the audited financial statements is consistent with the budgeted amount and previous years and represent less than .006% (.00006) of total expenses.

8. Allow funds in excess of \$50,000 to remain in a non-interest bearing account for more than one month.

CEO Interpretation (no change from previous)

I interpret “non-interest bearing account” to mean an account that collects no interest for the corporation. Compliance will be achieved when a review of the banking agreements, bank statements and financial records indicates that there are no funds in excess of \$50,000 which are not being held in interest bearing accounts.

Evidence **Compliant**

The Hospital receives interest on all bank accounts including the chequing account. There are not any funds which are held in non- interest bearing accounts. This can be verified by a review of the banking agreement between the Hospital and the CIBC or through a review of the monthly bank statements. Funds are also held in short and medium term GIC’s which also bear interest.

9. Operate without policies to ensure that capital equipment disposal is handled in a fair and transparent manner.

CEO Interpretation (no change from previous)

I interpret “capital equipment” to be any equipment with a cost in excess of \$3,000 or with a useful life beyond one period, and that is not a repair to an existing piece of equipment.

I interpret “capital equipment disposal” to mean obsolete or non-functioning equipment whose value was originally such that it was deemed to be “capital” equipment, is sold, traded-in, given away, or taken to the City transfer station.

I interpret “fair and transparent manner” to mean that disposal is maintained through a process that would be perceived by a reasonable person to indicate that the corporation uses principles of equity and fairness.

Compliance will be achieved when it can be determined that equipment disposals, as identified through a review of the capital assets ledger and of the financial records, have been put through a standard procedure with respect to their disposal.

Evidence **Compliant**

The hospital disposes of some obsolete capital equipment by negotiating a trade-in with supplier when equipment is replaced. We also have a “disposal of capital equipment” process, whereby surplus items that are no longer of use in the hospital are occasionally offered for sale by a sealed bid. In some cases surplus equipment is donated to other organizations or third world countries. A review of the capital assets ledger indicated that there were no capital assets disposed of that had not been fully amortized.

10. Bind the Corporation to commitments over 5 periods in length for expenditures exceeding \$100,000 per period.

CEO Interpretation (no change from previous)

I interpret “bind the corporation to commitments” to mean making long term agreements or contracts that legally bind the Hospital to commitments in future periods.

Compliance will be achieved when a review of contracts and legal documentation indicates that there are no commitments for over five periods in length for amounts exceeding \$100,000 per period that have been entered into without prior authorization of the Board of Directors through formal board motion.

Evidence **Compliant**

A review of all contracts for the period April 1, 2017 to September 30, 2017 indicates that the hospital issued a purchase order for \$118,584 per year for 7 years for the post warranty maintenance agreement for the new CT Scanner. As the CT has still not been installed and the maintenance period has not yet commenced, this purchase order could still be withdrawn, however due to the highly technical and proprietary nature of the equipment it is recommended that the manufacturer of the equipment (Toshiba) be the company to maintain the equipment. By agreeing to an 84 month term the annual cost remains the same for the entire period. A formal board motion will be presented at the November Board meeting.